# Annual Report 2001

**For the Year Ended December 31, 2001**

# Table of Contents


Letters of Transmittal ..... 5

Corporate Philosophy ..... 6

Organization Chart ..... 7

Plan Operations ..... 8

Investment Highlights ..... 11

Investment Policy Summary ..... 14

2001 Financial Statements:

- Management Report ..... 17
- Auditors' Report ..... 17
- Statement of Net Assets Available for Benefits ..... 18
- Statement of Changes in Net Assets Available for Benefits ..... 19
- Statement of Administrative Expenses ..... 20
- Notes to the Financial Statements ..... 21



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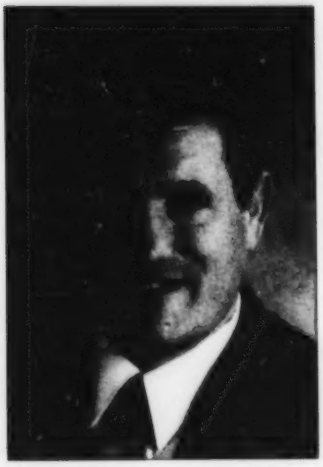
# Letters of Transmittal



Her Honour
The Honourable Dr. Lynda Haverstock
Lieutenant Governor,
Province of Saskatchewan

Your Honour:

I have the honour to submit the Annual Report of the Saskatchewan Pension Plan for the year ending December 31, 2001.

Respectfully submitted,

Eric Cline
Minister Responsible
Saskatchewan Pension Plan

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The Honourable Eric Cline
Minister Responsible
Saskatchewan Pension Plan

Sir:

On behalf of the Board of Trustees for the Saskatchewan Pension Plan, I have the honour to present the Annual Report for the Saskatchewan Pension Plan for the year ending December 31, 2001.

Respectfully submitted,

Katherine Strutt
General Manager
Saskatchewan Pension Plan

# Corporate Philosophy

## Our Mission

Provide people with the opportunities to make their financial lives better.

## Our Vision

The plan that people know and trust to provide financial products and services.

## Our Values

### Member Service

- Understanding member needs and meeting or exceeding their expectations
- Keeping member issues and inquiries our priority
- Managing our resources wisely, with a vision committed to long term growth and stability

### Integrity

- Dealing fairly with employees, co-workers, members, and the general public

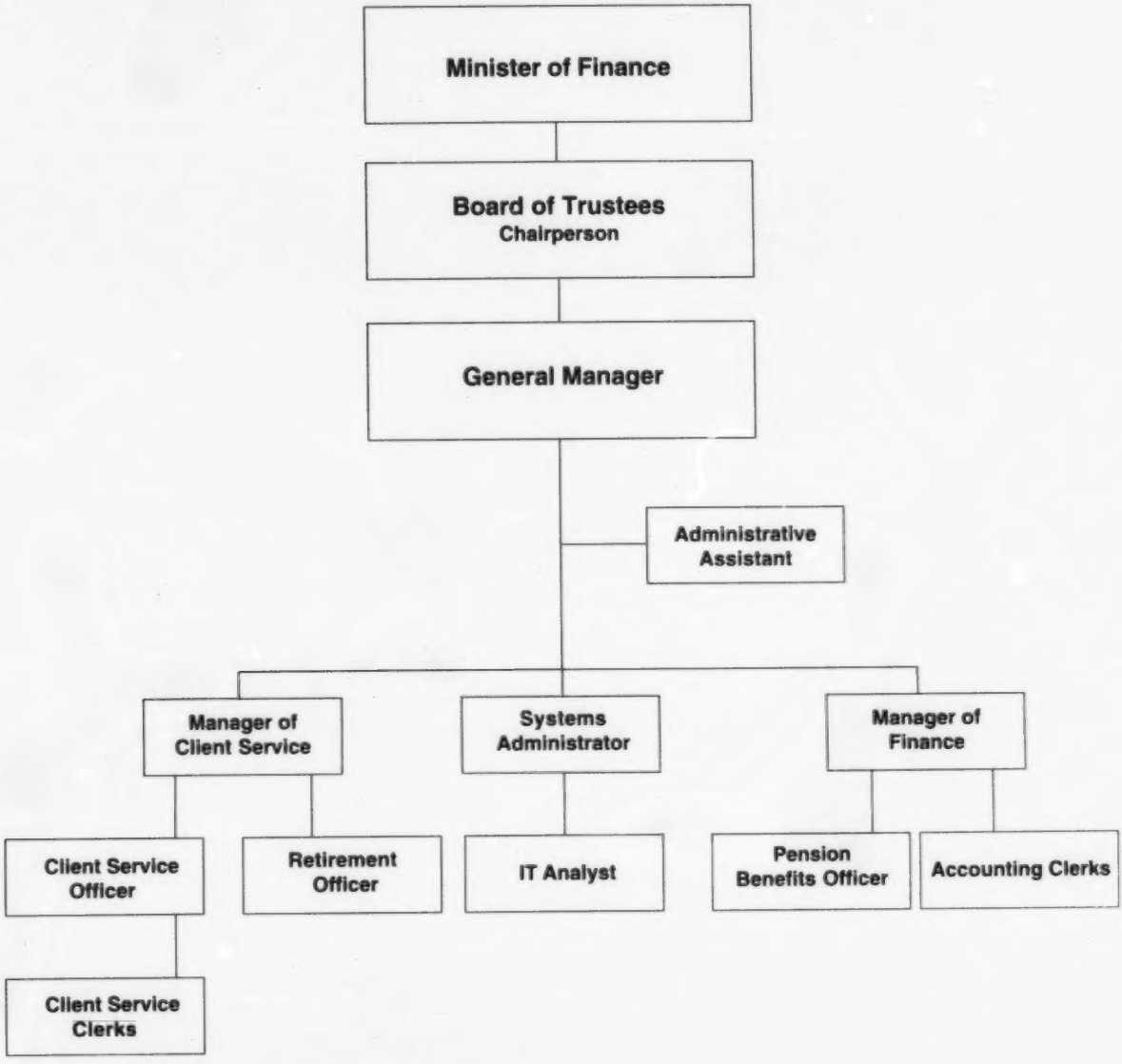
### Initiative

- Encouraging creativity
- Learning and self development
- Planning and executing new approaches and methods

### Teamwork

- Accepting diversity and difference
- Cooperating to accomplish common goals

# Organization Chart



# Plan Operations

Saskatchewan Pension Plan (SPP) is a voluntary, money purchase plan available to anyone between 18 and 69 years of age. Eligibility is not dependent upon residency, income, employment status, gender or membership in other plans. SPP members are full time employees, part time employees, self employed people, homemakers, farmers, and students.

**Membership profile**

| Status | % |
|---|---|
| Active | 64 |
| Retired | 36 |

| Sex | % |
|---|---|
| Female | 76 |
| Male | 24 |

| Occupation | % |
|---|---|
| Homemaker | 31 |
| Farmer | 11 |
| Self employed | 10 |
| Full time | 14 |
| Part time | 27 |
| Student | 3 |
| Other | 4 |

## Strategic Plan

The Board of Trustees and staff of SPP worked on the framework of a strategic plan for SPP this past year. The journey actually began in May 2000 with a blank page and by the end of last year we had articulated a mission statement, a vision statement, organizational values, and goals and objectives for a five year period (2001 to 2005).

SPP's goals from 2001 to 2005 are:

- To increase Plan membership;
- To increase Plan assets; and
- To manage our business effectively and efficiently.

The purpose of a strategic plan is to give direction to an organization ensuring its resources are used efficiently and effectively for everyone involved. This includes the Board of Trustees, staff, and members.

We are excited about the future of SPP and what will be accomplished as a result of the strategic planning process. Strategic planning is not a static event and will continue to evolve in the future.

## Marketing

Marketing efforts in 2001 concentrated on recruiting more and younger members to SPP. New member growth remained strong with 709 (2000: 475) people joining SPP in 2001, bringing the active membership to just over 18,900. The average age of new members was 38 years (2000: 40)

**New Member Profile**

- 68% identify themselves as full time, part time or self employed.
- Average age of new members in 2001 was 38 years.
- 58% of the new members were women.

The Plan's marketing strategy includes media campaigns at key times such as RRSP and the fall trade show season. A print and radio campaign during January and February reminded members to contribute and recruited new members. A second group of media placements took place in late October and November, leading into the peak campaign for 2002. SPP also participated in a the Regina Business to Business Expo and Agribition.

SPP has promotional literature available for individuals who wish to obtain more detailed Plan information. This literature can be obtained by:

- calling the toll-free line at 1-800-667-7153,
- visiting the Plan's website at www.spp.gov.sk.ca, or
- by e-mailing the Plan at: office@spp.gov.sk.ca.

## Features of SPP

The Plan is designed for flexibility so that members can make it fit their life situation and budget. The main features of SPP are:

- Voluntary - no obligation to contribute;
- Flexible - payment at any time during the Plan year;
- Portable - people can join and contribute to the Plan regardless of where they reside; and
- Professionally managed investments.

Members and the public use the toll-free inquiry line to contact SPP. In 2001 the toll-free line received 11,800 calls, on par with 2000 levels.

# Plan Operations

Members of the Contribution Fund earned 5.87% in 2001. This fund has a ten-year average return of 10.68%.

## Contributing to SPP

Contributions for 2001 were $4.9 million, or 5.7% above 2000 levels. SPP has an annual maximum contribution of $600 and there is no minimum contribution. Contributions are tax deductible by the member or their spouse within RRSP guidelines.

Members like the easy payment options available at SPP. They can use the Pre-Authorized Contribution (PAC) system, mail contributions to the Plan, use their Visa or Mastercard by phone or in person, use the telebanking service available at their financial institutions, or contribute, in person, at financial institutions. An on-line payment service was introduced in 2001. This service can be accessed through the Plan's web site.

Contributions are locked-in and vested and are used to provide the member with a pension at retirement. Contributions are creditor protected and cannot be seized, claimed, or garnisheed in any way except by a court order under a marital division or Enforcement of Maintenance Order.

Assets of members who have not yet retired are held in the Contribution Fund, an actively managed, balanced fund. The fund is managed by Greystone Capital Management Inc. of Regina, a growth style manager, and Leith Wheeler Investment Counsel Ltd. of Vancouver, a value style manager. The purpose of the fund is to provide members with long term growth. The Plan balances the need for capital growth of younger members and the desire for capital preservation of older members with an equal mix of equities and fixed income investments. More information on the fund is found in the investment highlight section (page 11) and the Investment Policy summary (page 14).

## Employer Plan

SPP offers a unique opportunity to business owners and their employees. Employers can use SPP to offer the benefit of a pension plan to their employees without incurring the costs of administering a pension plan. Employers simply deduct the contributions from their payroll and submit them to SPP on whatever schedule they choose. Employers may also contribute on behalf of their employees.

SPP currently serves 65 employers with 237 employees. Six new employer plans signed on in 2001. There is significant room for growth in this area and SPP is actively pursuing marketing efforts here.

**New Retiree Profile**

- Over 670 members retired in 2001.
- Average monthly pension for new retirees was $83.95.
- Highest monthly pension is $181.34.
- About 10,700 people receive pension from SPP.

## Retiring from SPP

Plan members can choose to retire from SPP between the ages of 55 and 69. At the time of retirement, members may direct all or part of their account to purchase an annuity from SPP or transfer their account to a locked-in retirement investment with another financial institution. SPP also offers a small pension payout option for members whose monthly benefit is less than the prescribed amount. In 2001, pensions under $15.96 per month qualified for this option.

Each annuity the Plan offers will pay the member monthly benefits for the rest of his or her life with possible payments to a beneficiary or survivor after the member's death. Annuity payments are determined by the member's account balance, age at retirement, and interest and annuity rates in effect.

When members retire from SPP and choose an annuity from SPP, their funds are transferred from the Contribution Fund to the Annuity Fund. The fund is managed by Greystone Capital Management Inc. of Regina and invests in high quality fixed income investments.

# Plan Operations

*Saskatchewan Pension Plan Board of Trustees from left to right: Honey Deglau, Arnie Arnott, Esther Bjorklund, and Earl Hanson. Missing: Gail Pischak.*

## Administration

SPP is administered by a Board of Trustees, one-third of whom must also be members. The Board acts as trustee of the fund and administers the Plan in accordance with *The Saskatchewan Pension Plan Act* and Regulations and Board policies.

Board members are appointed by Order-in-Council and serve staggered two year terms. The Chair is Earl Hanson; board members are Arnie Arnott, Esther Bjorklund, Honey Deglau, and Gail Pischak. SPP would like to recognize the contribution of Monte Gorchinski who served on the Board from 1993 to 2001.

Responsibility for the daily administration of the Plan is delegated to the General Manager. In addition, the Board employs a number of consultants and specialists to assist them with managing member funds. These include:

- professional money managers, Greystone Capital Management Inc. and Leith Wheeler Investment Counsel Ltd., who are responsible for investing member funds according to the Board's investment policies;
- a custodian, Royal Trust Corporation of Canada, whoholds all securities and cash in the funds and reports independently to the Board, thereby ensuring all funds are safeguarded; and
- a pension consultant, James P. Marshall, a Hewitt Company, who assists the Board in monitoring the performance of the investment managers.

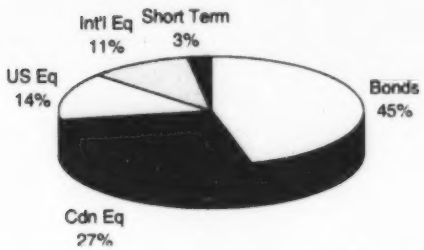
Administrative expenses are paid from Plan earnings and SPP focuses on providing efficient service at a reasonable cost. The table below compares asset growth, earnings, and expense ratios over the past five years. Administrative expenses in 2000 were $1.57 million, or .80% of the fund's net asset base.

| | 2001 | 2000 | 1999 | 1998 | 1997 |
|---|---|---|---|---|---|
| **Contribution Fund Assets** (000's) | $143,112 | $143,820 | $133,750 | $127,570 | $118,266 |
| **Earnings** (%) | 5.87 | 8.96 | 7.33 | 8.95 | 18.28 |
| **Annuity Fund Assets** (000's) | $54,479 | $49,432 | $45,483 | $41,066 | $37,329 |
| **Expense Ratio** (%) | .80 | .82 | .84 | .81 | .90 |

# Investment Highlights

## Contribution Fund

**Contribution Fund Portfolio at December 31, 2001**




By most measures, 2001 was an extraordinary year. After 10 straight years of uninterrupted growth in North America, 2001 marked a period of economic slowdown. The slowdown began early in the year as business spending on technology evaporated and investors' enthusiasm for technology stocks, at any price, faded. There were, however, signs of improvement in the late summer as the economy reacted to interest rate cuts before the tragic events of September 11th made a further economic decline inevitable.

Thankfully, the major equity markets around the world staged a strong recovery in the fourth quarter in anticipation of improved economic conditions in 2002.

Despite closing on a positive note, equity markets provided disappointing results. The good news in 2001 came from the bond market as interest rates declined, providing investors with capital gains as well as interest income.

### Canadian Equities

The decline in the TSE 300 in 2001 was largely the result of the decline in technology and telecom related companies. The mania which surrounded these companies in 1999 and early 2000 gave way to the unpleasant reality that previous growth assumptions were unrealistic. Revenue and profit forecasts for these companies declined for most of the year as the economy weakened.

There were, however, many areas of the Canadian market which did well in 2001 as only three of the fourteen industry sectors declined. Notably, consumer products, merchandising, and transportation companies had a good year. Many of these companies began the year very reasonably priced as investors overlooked the so-called "old economy" companies in preference for the more exciting technology area.

SPP's Canadian equity portfolio returned 2.9% compared to the TSE 300 index return of -12.6% and the TSE/CPMS 300 capped 10 index return of -10.4%.

The Board of Trustees amended the benchmark index for Canadian equities in 2001 from the TSE 300 to the TSE/CPMS 300 capped 10 index. This issue arose because of the dominance of Nortel Networks in the Canadian equity market, especially in 2000. The company's capitalization was at times about one-third of the value of the TSE 300.

The criterion of a good benchmark is that it be investable. The Investment Policy limits investment in a single holding to 10% which can be in conflict with the benchmark TSE 300 index when a company, such as Nortel, dominates the index.

**Index Definitions**

| | |
|---|---|
| TSE 300 | Toronto Stock Exchange Index |
| S & P 500 | Standard & Poors 500 US Stocks |
| EAFE | Morgan Stanley Europe, Australia and Far East Index |
| SCUBI | Scotia Capital Universe Bond Index |

| TSE 300 Group | TSE 300 Weight Dec. 31, 2001 (%) | TSE 300 Return (%) | Portfolio Weight Dec. 31, 2001 (%) |
|---|---|---|---|
| Transportation | 3.3 | 48.6 | 4.7 |
| Management Companies | 1.8 | 23.4 | 2.1 |
| Merchandising | 4.1 | 20.4 | 7.2 |
| Consumer Products | 5.2 | 20.3 | 4.1 |
| Gold & Silver | 4.3 | 18.3 | 1.5 |
| Pipelines | 3.1 | 14.5 | 1.3 |
| Real Estate | 1.0 | 14.2 | – |
| Metals & Minerals | 4.7 | 12.8 | 4.1 |
| Oil & Gas | 11.5 | 7.0 | 10.9 |
| Paper & Forest | 1.7 | 5.0 | 2.4 |
| Financial Services | 28.2 | 2.7 | 34.7 |
| Communications | 4.6 | 7.5 | 4.4 |
| **TSE 300** | | -12.6 | |
| Utilities | 7.0 | -22.7 | 4.2 |
| Industrial Products | 19.5 | -49.2 | 18.4 |
| Total | 100.0 | | 100.0 |

# Investment Highlights

The Board felt the TSE/CPMS 300 capped 10 index more closely aligns the investment manager's mandate with the benchmark against which performance is assessed.

In addition, the Board further enhanced the diversification within equities by decreasing the Canadian equity benchmark from 30% to 20% and increasing each of the U.S. and non-North American equity benchmarks from 10% to 15%.

Further detail on the Investment Policy can be found on page 14 of this report.

## U.S. Equities

The terrorist attacks of September 11 caused a sharp decline in the U.S. equity market in mid-September, followed by a strong rally into December. A fourth quarter rebound in Information Technology stocks was not enough to offset earlier losses as the sector fell 21% in the trailing year, leading the S&P 500 Index to a -6.4% (C$) annual return.

| Category | S & P 500 Weight Dec. 31, 2001 (%) | S & P 500 Return (C$) (%) | Portfolio Weight Dec. 31, 2001 (%) |
|---|---|---|---|
| Consumer Discretionary | 13.1 | 8.3 | 23.6 |
| Materials | 2.6 | 7.4 | 3.0 |
| Industrials | 11.3 | -1.5 | 15.4 |
| Consumer Staples | 8.2 | -2.5 | 5.1 |
| Financials | 17.8 | -5.0 | 14.2 |
| **S & P 500** | | -6.4 | |
| Energy | 6.3 | -6.8 | 6.1 |
| Health Care | 14.4 | -7.5 | 11.6 |
| Telecommunications Services | 5.5 | -8.3 | 2.6 |
| Information Technology | 17.7 | -21.2 | 14.3 |
| Utilities | 3.1 | -28.2 | 4.1 |
| Total | 100.0 | | 100.0 |

Losses were widespread in the U.S. market with eight of ten sectors reporting negative returns for the year. The 2001 loss was the index's second consecutive decline, the first such occurrence since 1973-74 and only the fourth time in the index's history that it has recorded two consecutive years of negative returns.

Despite the devastating impact of the terrorist attacks, the U.S. consumer has been amazingly resilient. Real income has benefited from lower interest rates, lower mortgage costs, rising real estate values and declining energy costs. Because consumer spending represents two-thirds of American GDP, it is critical to the timing and sustainability of the recovery. SPP's U.S. equity portfolio returned -7.3% for the year compared to the S&P 500 Index return of -6.4%.

## Non-North American Equities

By year end, the MSCI EAFE Index had surpassed its pre-terrorist attack level, yet lost 16.7% (C$) for the year. By comparison, SPP's International portfolio lost 1.3% for the year. Eighteen of twenty-one countries in the EAFE index posted losses in the year with just New Zealand, Australia and Ireland in positive territory. Despite serious financial troubles in Argentina, emerging market equities recovered sharply in the quarter (+27.6%) and ended the year with a small, positive, 1.1% return.

| Country | EAFE Weight Dec. 31, 2001 (%) | EAFE Return (C$) (%) | Portfolio Weight Dec. 31, 2001 (%) |
|---|---|---|---|
| New Zealand | 0.1 | 15.1 | - |
| Australia | 3.7 | 8.2 | 2.0 |
| Ireland | 0.8 | 3.4 | 3.6 |
| Austria | 0.1 | -1.0 | - |
| Spain | 3.3 | -5.7 | 2.6 |
| Belgium | 1.1 | -6.9 | 0.9 |
| Norway | 0.5 | -7.9 | - |
| United Kingdom | 25.3 | -8.5 | 22.1 |
| Denmark | 0.9 | -9.9 | 1.1 |
| Hong Kong | 1.9 | -13.9 | 4.8 |
| Switzerland | 7.4 | -16.6 | 10.0 |
| **EAFE** | | -16.7 | |
| Portugal | 0.5 | -17.8 | - |
| Netherlands | 5.8 | -17.8 | 6.0 |
| France | 10.5 | -18.1 | 8.9 |
| Germany | 7.9 | -18.2 | 5.0 |
| Singapore | 0.9 | -19.2 | 1.9 |
| Italy | 4.1 | -23.0 | 3.6 |
| Sweden | 2.4 | -23.2 | 1.4 |
| Japan | 20.1 | -24.9 | 17.3 |
| Greece | 0.4 | -26.2 | - |
| Finland | 2.3 | -34.4 | - |
| Emerging Markets | - | 1.1 | 5.7 |
| Cash | - | - | 3.1 |
| Total | 100.0 | | 100.0 |

# Investment Highlights

Europe, which now accounts for approximately 73% of the index, has suffered from curtailed export demand, a direct consequence of a slowing US economy. Equity markets in Italy, France, Sweden and Germany were all down 20% or more. However, companies are now well into the process of restructuring and becoming world competitive. The introduction of Euro currency on January 1 should also promote better competition. Japan's economy remains problematic, with inefficient companies and a banking system hamstrung with bad debt.

Despite negative results from time to time equity markets, especially foreign markets, have provided solid returns over longer periods of time.

## Fixed Income

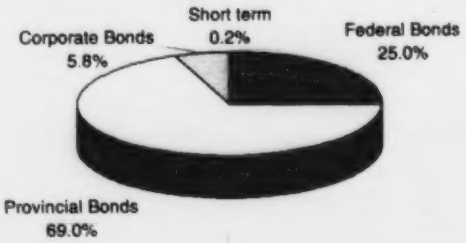
While equity returns were negative, bond and short-term investment returns were positive, providing some protection of capital in the portfolio. Throughout the year, the U.S. Federal Reserve Board and the Bank of Canada lowered interest rates aggressively by a total of 4.75% and 3.5% respectively. The consumer price index moved from over 3% to just under 0.7% in Canada and 1.9% in the U.S. by year end.

| | SCUBI Weight Dec. 31, 2001 (%) | SCUBI Return (%) | Portfolio Weight Dec. 31, 2001 (%) |
|---|---|---|---|
| Federal | 50.1 | 7.7 | 54.0 |
| Provincial | 22.9 | 7.8 | 16.5 |
| Corporate | 25.8 | 9.3 | 28.1 |
| Municipal | 1.2 | 7.9 | 1.4 |
| **SCUBI** | | 8.1 | |
| Total | 100.0 | | 100.0 |

SPP's bond portfolio returned 8.8% compared to the Universe Bond Index return of 8.1%. Much of the favourable return was generated by capital gains from falling interest rates.

Total assets in the Contribution Fund were $143.1 million at year end, a decrease of 0.5% from 2000. SPP's income allocation policy, which smooths the fund's market performance by blending this year's market gains and losses with a portion of those from the preceding three years, allocated a return of 5.87% to members in 2001, bringing the 10 year average return to 10.68%. The market return for the year was 2.96%.

**Annuity Fund Portfolio**
**at December 31, 2001**




## Annuity Fund

Assets of retired members are held in the Annuity Fund. Total assets of the fund at December 31, 2001, valued at cost, were $54.5 million. Members continued to face low annuity rates in 2001, ranging from a high of 4.8% to a low of 4.4%

# Investment Policy Summary

SPP has established two funds to hold the assets of the Plan: the Contribution Fund and Annuity Fund. The investments must be eligible investments as outlined in *The Pension Benefits Act* and Regulations, the *Income Tax Act* and Regulations, and all subsequent amendments.

The Board of Trustees establishes the Investment Policy and reviews the performance of the funds on a quarterly basis. The Investment Policy is open to review at any time but must be reviewed annually by the Board.

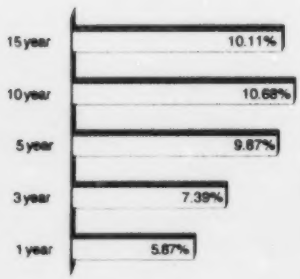
## Contribution Fund

The Contribution Fund holds assets supporting members' pension credits prior to retirement. The assets are accumulated under a defined contribution or money purchase arrangement. The purpose of the fund is to accumulate the assets of members and invest these assets in a prudent, risk-controlled manner to provide for long-term growth. The Plan balances the need for capital growth of younger members with the desire for capital preservation of older members with an equal mix of equities and fixed income investments.

In order to achieve the long term investment goals, the fund invests in assets that may have uncertain returns, such as Canadian equities, foreign equities and bonds. However, the Board of Trustees attempts to reduce the overall level of risk by:

- diversifying the asset classes, diversifying within each individual asset class and diversifying by manager style;
- establishing quality, quantity and diversification guidelines;
- retaining an investment consultant who monitors the investment performance of the fund and reports to the Board on investment manager related issues that may have an impact on fund performance;
- having management conduct monthly reviews of compliance of each investment manager with the quality and quantity guidelines contained in the policy;
- reviewing quarterly reports from investment managers on compliance with the Investment Policy throughout the reporting period; and
- the Board has established the following investment benchmarks and asset component ranges at market value.

**Historical Investment Performance**




| | Minimum % | Benchmark | Maximum % |
|---|---|---|---|
| Canadian Equities | 10 | 20 | 40 |
| Foreign equities* | 5 | 30 | 40 |
| **Total equities** | **30** | **50** | **60** |
| Canadian bonds | 30 | 47 | 60 |
| Short term investments and cash | 1 | 3 | 30 |

Mortgages, real estate, private placement equities, and certain other types of investments require prior approval of the Board of Trustees.

*Not to exceed the Income Tax limit of 30% of book value.

The primary investment performance objective is to earn a rate of return that exceeds the rate of return earned on a benchmark portfolio as outlined above. The benchmark portfolio uses the following indices to measure performance:

- Canadian equities: Toronto Stock Exchange/CPMS 300 Capped 10% Index;
- U.S. equities: Standard & Poors 500 US Stock Index;
- Non North American equities: Morgan Stanley Europe, Australia and Far East Index;
- Bonds: Scotia Capital Universe Bond Index; and
- Short term investments: 91 day Canadian Treasury Bills.

# Investment Policy Summary

Canadian and foreign equities are permitted. Equities are limited to those that are publicly traded on a recognized securities market and units of international pooled funds. No one equity holding shall represent more than 10% of the market value of the equity portfolio or more than 10% of the capital stock of any corporation.

Bonds must meet a minimum quality standard of "BBB" or equivalent at the time of purchase. "BBB" bonds may not be purchased if it would raise "BBB" holdings to more than 15% of the market value of the bond portfolio.

Short-term investments must have a rating of "R-1" or equivalent as rated by a recognized bond rating agency.

Investments in Real Estate Investment Trusts or other income trusts where liability can flow through to unit holders are not permissible.

Investment income and changes in the market value of investments are allocated annually to members in the Contribution Fund. The change in market value of investments is allocated over a four year period on a straight line basis. The maximum gain or loss deferred to future years cannot exceed 5% of the market value of investments at December 31.

## Annuity Fund

The Annuity Fund holds assets transferred from the Contribution Fund at retirement. Assets in the fund are used to provide annuity payments for life to retired members. Overall, the risk tolerance of the fund is low. The fund cannot tolerate loss of principal. Risk is addressed through an investment approach that invests in high quality fixed income investments. Interest rate risk is addressed by matching estimated future cash payments with interest and principal payments from the portfolio. As such, the Annuity Fund is immunized against changes in interest rates that may cause temporary differences between the asset and liability values. The duration of the portfolio at cost is matched with the duration of the liabilities at cost on an annual basis. The matching should fall within a band of -.5 to +.5 years of the duration target.

Government of Canada, Provincial Government and Corporate bond issues, strip bonds, mortgages, mortgage backed securities and short term investments are permissible investments. Equities and derivatives are not permitted.

Government bonds must have a credit rating of at least "BBB" or equivalent at the time of purchase. No more than 15% of the par value of the bond portfolio may be invested in government bonds with a "BBB" rating. The minimum credit rating for corporate bonds and debentures is an "A" rating or equivalent at the time of purchase. No more than 10% of the market value of the bond portfolio should be invested in corporate bonds. Mortgage related investments must be government guaranteed or NHA approved. No more than 10% of the market value of the total portfolio should be invested in mortgages. Short term investments must have an "R-1" or equivalent credit rating at the time of purchase.

# Management and Auditors' Reports

Management's Responsibility for Financial Statements

The accompanying financial statements of the Saskatchewan Pension Plan (the Plan), and all information in this annual report, have been prepared by Plan management which is responsible for the reliability, integrity and objectivity of the information provided. The statements have been prepared in accordance with Canadian generally accepted accounting principles and necessarily include some estimates based on management's judgment. Other financial information in this annual report is consistent with that provided in the financial statements.

The Plan's accounting system and related system of internal controls are designed to provide reasonable assurance that transactions are properly authorized and recorded, assets are safeguarded, and financial records are properly maintained to provide reliable information for use in the preparation of financial statements.

The Board of Trustees of the Plan is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board reviews and approves the financial statements.

These financial statements have been audited by the Plan's external auditors, Deloitte & Touche LLP, in accordance with Canadian generally accepted auditing standards, on behalf of the Members of the Legislative Assembly of Saskatchewan.

Earl R. Hanson
Chairperson
February 15, 2002

Katherine Strutt
General Manager

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To the Members of the Legislative Assembly of Saskatchewan

We have audited the statement of net assets available for benefits of the Saskatchewan Pension Plan as at December 31, 2001 and the statements of changes in net assets available for benefits and administrative expenses for the year then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Plan as at December 31, 2001 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Saskatoon, Canada
February 15, 2002

Chartered Accountants

## Saskatchewan Pension Plan
## Statement of Net Assets Available for Benefits
## As at December 31

(thousands of dollars)

| | 2001 | | | 2000 | | |
|---|---|---|---|---|---|---|
| | Contribution Fund | Annuity Fund | Total | Contribution Fund | Annuity Fund | Total |
| **ASSETS** | | | | | | |
| Investments (Note 3) | | | | | | |
| Money Market | $ 3,666 | $ 95 | $ 3,761 | $ 7,624 | $ 1,030 | $ 8,654 |
| Bonds | 64,719 | 53,264 | 117,983 | 62,838 | 48,154 | 110,992 |
| Equities | 73,129 | - | 73,129 | 71,595 | - | 71,595 |
| | 141,514 | 53,359 | 194,873 | 142,057 | 49,184 | 191,241 |
| Cash | 345 | 827 | 1,172 | 470 | 90 | 560 |
| Accrued Interest and Dividends | 712 | 719 | 1,431 | 821 | 602 | 1,423 |
| Prepaid (Deferred) | | | | | | |
| Retirement Transfers | 766 | (766) | - | 766 | (766) | - |
| Prepaid Pension Benefits | - | 443 | 443 | - | 407 | 407 |
| | 143,337 | 54,582 | 197,919 | 144,114 | 49,517 | 193,631 |
| **LIABILITIES** | | | | | | |
| Administrative Expenses Payable | 121 | 42 | 163 | 126 | 46 | 172 |
| Death and Other Benefits Payable | 98 | 61 | 159 | 166 | 39 | 205 |
| Deferred Member Contributions | 6 | - | 6 | 2 | - | 2 |
| | 225 | 103 | 328 | 294 | 85 | 379 |
| **NET ASSETS AVAILABLE FOR BENEFITS** | $143,112 | $ 54,479 | $197,591 | $143,820 | $ 49,432 | $193,252 |

ON BEHALF OF THE TRUSTEES:

Earl R. Hanson,
Chairperson

G. N. (Arnie) Arnott,
Board Member

(See Accompanying Notes)

## Saskatchewan Pension Plan
## Statement of Changes in Net Assets Available for Benefits
## For the Year Ended December 31

(thousands of dollars)

| | 2001 | | | 2000 | | |
|---|---|---|---|---|---|---|
| | Contribution Fund | Annuity Fund | Total | Contribution Fund | Annuity Fund | Total |
| **INCREASE IN ASSETS** | | | | | | |
| Investment Income | | | | | | |
| Interest | $ 4,127 | $ 4,120 | $ 8,247 | $ 4,342 | $ 3,867 | $ 8,209 |
| Dividends | 1,819 | - | 1,819 | 2,570 | - | 2,570 |
| | 5,946 | 4,120 | 10,066 | 6,912 | 3,867 | 10,779 |
| Change in Market Value of Investments | (1,844) | - | (1,844) | 6,720 | - | 6,720 |
| Contributions | 4,907 | - | 4,907 | 4,643 | - | 4,643 |
| | 9,009 | 4,120 | 13,129 | 18,275 | 3,867 | 22,142 |
| **TRANSFERS ON RETIREMENT** | (6,859) | 6,859 | - | (6,710) | 6,710 | - |
| **DECREASE IN ASSETS** | | | | | | |
| Pension Benefits | - | 5,056 | 5,056 | - | 4,659 | 4,659 |
| Administrative Expenses | 1,142 | 423 | 1,565 | 1,124 | 406 | 1,530 |
| Transfer to Other Pension Plans | 1,322 | - | 1,322 | - | 1,281 | 1,281 |
| Death and Other Benefits | 394 | 453 | 847 | 371 | 282 | 653 |
| | 2,858 | 5,932 | 8,790 | 1,495 | 6,628 | 8,123 |
| Change in Net Assets | (708) | 5,047 | 4,339 | 10,070 | 3,949 | 14,019 |
| **NET ASSETS AVAILABLE FOR BENEFITS BEGINNING OF YEAR** | 143,820 | 49,432 | 193,252 | 133,750 | 45,483 | 179,233 |
| **NET ASSETS AVAILABLE FOR BENEFITS END OF YEAR** | $143,112 | $ 54,479 | $197,591 | $143,820 | $ 49,432 | $193,252 |

(See Accompanying Notes)

## Saskatchewan Pension Plan
## Statement of Administrative Expenses
## For the Year Ended December 31

(thousands of dollars)

| | 2001 | 2000 |
|---|---|---|
| **EXPENSES** | | |
| Salaries and Wages | $ 569 | $ 596 |
| Professional and Technical Services | 505 | 489 |
| Advertising and Promotional | 236 | 203 |
| Computer Systems | 66 | 65 |
| Facility and Equipment Rental | 66 | 61 |
| Telephone, Freight and Postage | 52 | 46 |
| Office Supplies | 21 | 24 |
| Other Contractual | 21 | 20 |
| Board Honorariums and Expenses | 17 | 17 |
| Travel | 12 | 9 |
| **ADMINISTRATIVE EXPENSES OF THE PLAN** | $1,565 | $1,530 |
| **ADMINISTRATIVE EXPENSES ALLOCATED AS FOLLOWS:** | | |
| Contribution Fund | $1,142 | $1,124 |
| Annuity Fund | 423 | 406 |
| | $1,565 | $1,530 |

(See Accompanying Notes)

# Saskatchewan Pension Plan
# Notes to the Financial Statements
# December 31, 2001

**1. Description of Plan**

**(a) General**

The Saskatchewan Pension Plan ("SPP" or the "Plan") is a defined contribution plan established by the Government of Saskatchewan to provide an opportunity for individuals with little or no access to private pensions or other retirement savings arrangements to save for their retirement. Details of the Plan are contained in *The Saskatchewan Pension Plan Act* (the Act) and Regulations.

**(b) Funds Established**

The following funds were established to administer the Plan:

(i) Contribution Fund

Established to accumulate all contributions and earnings for members who have not yet retired under the Plan. The Fund holds a balanced portfolio including equities, bonds and short term investments to maximize earnings while minimizing risk to members.

(ii) Annuity Fund

Established to hold the funds to make pension payments to retired members. The Fund holds investments in high quality long-term bonds. The Fund also holds money market investments for current pension needs and to pay administration costs. Equity investments are not permitted. The investment portfolio is structured to limit the effect on the Fund due to changes in the level of interest rates, to provide sufficient liquidity for payments to retirees when due, and to ensure long-term solvency.

**(c) Contributions**

Participation is voluntary and members can contribute a maximum of $600 for each plan year. Contributions are vested immediately in the member's name and are locked into the Plan until retirement.

**(d) Retirement**

Members may retire under the Plan as early as age 55 or delay retirement as late as age 69. A member's accumulated account balance at retirement comprises the member's contributions to the Plan together with the investment income and changes to the market value of the Plan's investments allocable to the member as of that date under the terms of the Plan. Upon retirement, members will be provided with a pension by the Plan, or at the request of the member, may transfer all or part of their account to a locked-in pension option with a different financial institution. The options available are Locked-in Retirement Account (LIRA), Locked-in Retirement Income Fund (LRIF), and Life Income Fund (LIF). The accumulated account balances of members who opt to remain in the Plan at retirement are transferred to the Annuity Fund.

**(e) Administrative Expenses**

Administrative expenses are allocated to the Funds based on their weighted average asset base as prescribed by Regulation.

**(f) Income Tax**

The Plan is a prescribed provincial plan under the Income Tax Act and is not subject to tax.

**(g) Death Benefits**

Should a member die prior to retirement, the funds in his or her account will be paid to the named beneficiary. If the beneficiary is the member's spouse, the funds may be transferred to the spouse's SPP account or to their own registered retirement savings plan.

Should a member die after retirement, death benefits are payable according to the type of annuity the member selected at retirement.

**(h) Survivor Benefits**

When a member who selected the Joint and Last Survivor Annuity dies, benefits are paid to the survivor for the balance of his or her life.

**(i) Withdrawal Provisions**

Members whose monthly pensions are less than the prescribed amount can withdraw their total pension in one lump sum instead of receiving monthly benefits. In 2001, the prescribed amount was $15.96.

## Saskatchewan Pension Plan
## Notes to the Financial Statements
## December 31, 2001
### (thousands of dollars)

**2. Significant Accounting Policies**

The financial statements are prepared in accordance with Canadian generally accepted accounting principles. The following policies are considered to be significant:

**(a) Investment Transaction and Income Recognition**

Investment transactions are accounted for on the trade date. Realized gains and losses and unrealized appreciation or depreciation of investments are determined by reference to the average cost of investments. The Plan follows the accrual method for the recording of income and expenses. Dividends are recorded on the date of record.

**(b) Investments**

(i) Contribution Fund

Investments comprising of bonds and equities are stated at market value. Money market investments, comprising of treasury bills and bankers acceptances, are recorded at cost, which approximates market value.

(ii) Annuity Fund

Investments in bonds are carried at amortized cost. Any premium or discount arising on purchase is amortized to income over the period to maturity. Gains and losses arising on sale are deferred and amortized to income over the remaining term to maturity of the security sold. Funds are transferred from the Contribution Fund at the date members retire to the Annuity Fund for the purchase of long-term bonds. The combined duration of the bonds purchased is matched to the duration of the liabilities under the Annuity Fund. Under the policy of the Plan such bonds are generally required to be held to maturity and therefore are not considered marketable. This is consistent with the basis of underwriting annuities, which are issued based on the prevailing interest rates at the time of retirement. Money market investments, comprising of treasury bills and bankers acceptances, are recorded at cost, which approximates market value.

**(c) Foreign Currency Translation**

Monetary items denominated in foreign currency are translated at the exchange rate in effect at year-end. Investments, revenue, and expenses are translated at the exchange rate in effect at the transaction date. Gains and losses arising on translation are included in the current period change in market value of investments.

**(d) Fair Value**

Accrued interest and dividends, prepaid (deferred) retirement transfers, prepaid pension benefits, administrative expenses payable, death and other benefits payable and deferred member contributions are all short term in nature and as such, their carrying value approximates fair value.

Fair value of investments comprising of bonds, equities and marketable securities is determined by reference to closing year end sale prices from recognized security dealers or, in the absence of recorded sales, by reference to closing year end bid and ask prices.

# Saskatchewan Pension Plan
# Notes to the Financial Statements
# December 31, 2001
## (thousands of dollars)

**3. Investments**

**(a) Contribution Fund**

**(i) Money Market**

| | 2001 | | | 2000 | | |
|---|---|---|---|---|---|---|
| | Average Term (in days) | Effective Interest Rate (percent) | Market Value | Average Term (in days) | Effective Interest Rate (percent) | Market Value |
| Money Market | 91 | 2.5 | $ 3,666 | 74 | 5.7 | $ 7,624 |

Money market investments are defined as securities purchased with a maturity of one year or less. Only securities with an "R-1", rating as rated by a recognized bond rating agency at the time of purchase, are permissible. Other than the Government of Canada, no single issuer represents more than 13.6% (2000: 11.0%) of the money market portfolio.

**(ii) Bonds**

| | 2001 | | | | | |
|---|---|---|---|---|---|---|
| Years to Maturity | Market Value | | | | | |
| | Federal | Provincial | Real Return | Municipal | Corporate | Total |
| 5 years or less | $ 18,320 | $ 3,443 | $ - | $ 535 | $ 5,855 | $ 28,153 |
| Greater than 5 years | 16,635 | 7,224 | - | 354 | 12,353 | 36,566 |
| | $ 34,955 | $ 10,667 | $ 0 | $ 889 | $ 18,208 | $ 64,719 |

| | 2000 | | | | | |
|---|---|---|---|---|---|---|
| Years to Maturity | Market Value | | | | | |
| | Federal | Provincial | Real Return | Municipal | Corporate | Total |
| 5 years or less | $ 19,095 | $ 2,106 | $ - | $ - | $ 6,330 | $ 27,531 |
| Greater than 5 years | 16,996 | 8,731 | 247 | 878 | 8,455 | 35,307 |
| | $ 36,091 | $ 10,837 | $ 247 | $ 878 | $ 14,785 | $ 62,838 |

Bonds must meet a minimum quality standard of "BBB" or equivalent, as rated by a recognized credit rating service. No more than 15% of the market value of the bond portfolio may be held in "BBB" issues. Other than the Government of Canada, no single issuer represents more than 5.3% (2000: 5.6%) of the overall bond portfolio. All of the bonds are fixed rate bonds with effective interest rates ranging between 4.2% and 7.9% (2000: 3.6% and 10.9%). Actual maturity may differ from contractual maturity because certain borrowers have the right to call or prepay certain obligations with or without call or prepayment penalties.

**(iii) Equities at Market Value**

| | 2001 | 2000 |
|---|---|---|
| Canadian Shares | $ 37,739 | $ 44,445 |
| United States Shares | 20,113 | 13,503 |
| Non North American Pooled Fund | 15,277 | 13,647 |
| | $ 73,129 | $ 71,595 |

No one holding represents more than 10% of the market value of the equity portfolio or more than 10% of the capital stock of the issuer. Equities include common shares that have no fixed maturity date and are generally not exposed to interest rate risk. The average dividend rate is 1.7% (2000: 1.5%)

**(iv) Interest Rate, Credit, and Foreign Currency Risk**

**Interest Rate Risk**
Interest rate risk refers to the adverse consequences of interest rate changes on the Plan's cash flows, financial position and income. This risk arises from differences in the timing and amount of cash flows related to the Plan's assets and liabilities. The value of some of the Plan's assets is affected by changes in nominal interest rates and equity markets.

The Fund holds approximately 48.3% (2000: 49.6%) of its investments in fixed income securities and 51.7% (2000: 50.4%) in equities at December 31, 2001.

**Credit Risk**
Credit risk arises from the potential for issuers of securities to default on their contractual obligation to the Plan. The Plan limits the credit risk by dealing with issuers that are considered to be high quality. At December 31, 2001 the Fund's maximum credit risk exposure relates to bonds, accrued income and short-term investments totalling $69,097 (2000: $71,283)

**Foreign Currency Risk**
Foreign Currency exposure arises from the Plan's holdings of foreign equities. As at December 31, 2001, the Plan's foreign currency exposure was $35,390 (2000: $27,150).

To manage the above risks, the Board has adopted an Investment Policy whereby investments are strategically distributed among several classes of assets to reduce exposure to investment volatility. The Plan's Investment Policy also defines minimum quality rating for new investments and restricts the size of investment in any one issuer.

**(v) Investment Performance**
Investment performance and benchmark returns are as follows:

| | 2001 | 2000 |
|---|---|---|
| Portfolio Return | 3.0% | 10.2% |
| Benchmark Return | -1.8% | 5.6% |

The portfolio return is a time-weighted rate of return calculation before deducting administration expenses. The benchmark return aggregates the actual market index returns according to the weightings specified in the Investment Policy.

**(b) Annuity Fund**

**(i) Money Market**

| | 2001 | | | 2000 | | |
|---|---|---|---|---|---|---|
| | Average Term (in days) | Effective Interest Rate (percent) | Market Value | Average Term (in days) | Effective Interest Rate (percent) | Market Value |
| Money Market | 49 | 1.9 | $ 95 | 17 | 5.6 | $ 1,030 |

Money market investments are defined as securities purchased with a maturity of one year or less. Only securities with an "R-1" rating are permissible. Other than Government of Canada, no single issuer represents more than 0.0% (2000: 38.5%) of the money market portfolio.

**(ii) Bonds**

| 2001 | | | | | |
|---|---|---|---|---|---|
| Years to Maturity | Carrying Value | | | | Total Market |
| | Federal | Provincial | Corporate | Total | |
| 5 years or less | $ 3,386 | $ 3,817 | $ 543 | $ 7,746 | $ 8,290 |
| Greater than 5 years | 10,072 | 32,918 | 2,528 | 45,518 | 54,450 |
| | $ 13,458 | $ 36,735 | $ 3,071 | $ 53,264 | $ 62,740 |

| 2000 | | | | | |
|---|---|---|---|---|---|
| Years to Maturity | Carrying Value | | | | Total Market |
| | Federal | Provincial | Corporate | Total | |
| 5 years or less | $ 3,991 | $ 1,994 | $ 806 | $ 6,791 | $ 7,001 |
| Greater than 5 years | 9,455 | 30,206 | 1,702 | 41,363 | 50,693 |
| | $ 13,446 | $ 32,200 | $ 2,508 | $ 48,154 | $ 57,694 |

Government bonds must meet a minimum quality standard of "BBB" or equivalent as rated by a recognized credit rating service at the time of purchase. No more than 15% of the par value of the total bond portfolio may be held in "BBB" issues. Corporate bonds must meet a minimum quality standard of "A" at the time of purchase. Other than the Government of Canada, no single issuer represents more than 21.3% (2000: 24.3%) of the overall bond portfolio. All of the bonds are fixed rate bonds with yields to maturity ranging between 4.7 and 11.4% (2000: 5.1% and 11.4%). Actual maturity may differ from contractual maturity because certain borrowers have the right to call or prepay certain obligations with or without call or prepayment penalties.

**(iii) Interest Rate and Credit Risk**

**Interest Rate Risk**
Interest rate risk refers to the adverse consequences of interest rate changes on the Plan's cash flows, financial position and income. This risk arises from differences in the timing and amount of cash flows related to the Plan's assets and liabilities. The value of some of the Plan's assets is affected by changes in nominal interest rates.

**Credit Risk**
Credit risk arises from the potential for issuer of securities to default on their contractual obligation to the Plan. The Plan limits the credit risk by dealing with issuers that are considered to be high quality. At December 31, 2001 the Fund's maximum credit risk exposure relates to bonds, accrued income and short-term investments totalling $54,078 (2000: $49,786).

To manage the above risk, the Board has adopted an Investment Policy that sets out the manner in which assets are invested. The Plan's Investment Policy defines the minimum quality rating for new investments and restricts the size of certain investments.

**4. Actuarial Valuation of Pension Liability**

An actuarial valuation was performed on the Plan as at December 31, 2001 by Aon Consulting. The valuation considered the obligations to retired members.

The valuation method used to calculate the basic pension liability of retired members was the projected benefit method prorated on services. The current annuity rate for each individual annuitant at their date of retirement has been used for the first 15 years and 6% per annum thereafter to determine the liabilities. The 1983 Group Annuity Mortality Table rates were used.

The results of this valuation are summarized below:

| | 2001 | 2000 |
|---|---|---|
| Net Assets Available | $54,479 | $49,432 |
| Basic Pension Liability | 53,185 | 48,575 |
| Surplus | $ 1,294 | $ 857 |

Pension annuities are issued based on the prevailing interest rates at the dates of retirement of the annuitants. The duration of the investments purchased are matched with the duration of the liabilities. As such, the risk to the Plan relates to:

(i) any differences, which may be material, between the estimated and actual life expectancy of the annuitant group which may cause the Plan to have insufficient funds to meet the liability or more funds than required; and

(ii) reinvestment of assets at maturity at rates greater than or less than rates used in determining the annuities.

To manage this risk, the Plan uses investment managers and actuaries to assist in determining the investment strategy. Further, subsection 7(3.1) of the Act requires any amount by which the liability of the Annuity Fund exceeds the assets of the Annuity Fund to be a charge on and payable from the General Revenue Fund of the Province of Saskatchewan. At December 31, 2001 and 2000, the Annuity Fund was in a surplus position.

## Saskatchewan Pension Plan
## Notes to the Financial Statements
## December 31, 2001
### (thousands of dollars)

The principal components of the change in the basic pension liability are summarized below:

| | 2001 | 2000 |
|---|---|---|
| Liability, beginning of year | $48,575 | $44,880 |
| Interest on liabilities | 3,133 | 3,003 |
| Increase in liability due to new annuities | 6,639 | 5,239 |
| Increase in liability due to change in assumption | - | 103 |
| Decrease in liability due to commuted value payouts | (202) | - |
| Expected annuity payments with interest | (5,054) | (4,695) |
| Mortality experience | 94 | 45 |
| Liability, end of year | $53,185 | $48,575 |

**5. Earnings Allocation to Members**

Investment income less administration expenses are allocated annually to members in the Contribution Fund. The change in market value of investments is allocated over a four year period on a straight line basis.

The maximum gain or loss deferred to future years is 5% of the total market value of investments at December 31 of each year. At December 31, 2001 the gain deferred to future years was $2,174 (2000 - $7,106).

**6. Related Party Transactions**

The Plan conducts a portion of its transactions with Saskatchewan Crown-controlled Agencies, departments and corporations. These transactions are at the prevailing market rates and are settled on normal trade terms. During the year, the Plan incurred operating expenses of approximately $193 (2000: $200) with these related parties.

At December 31, 2001, the Plan has $5,009 par value (2000: $4,544) invested in Province of Saskatchewan bonds with varying maturity dates and interest rates. Interest earned on these bonds during the year was approximately $296 (2000: $228).

**7. Lease Commitment**

The Plan is committed to an operating lease for office space to September 30, 2006 with minimum annual lease payments of $69.

**8. Comparative Figures**

Certain comparative figures have been reclassified to conform with the current year's financial statement presentation. The comparative figures were reported on by another public accounting firm.

# Supplementary Payment Information

**For the Year Ended December 31, 2001**

# Saskatchewan Pension Plan

## 2001 Expenditures

Personal Services
Listed are individuals (excluding unionized employees) who received payments for salaries, wages, honorariums, etc. which total $2,500 or more.

| | |
|---|---|
| Hanson, Earl | 2,793 |
| Meier, Bonnie | 68,032 |
| Strutt, Katherine | 75,576 |
| St. John, Bonnie | 35,094 |
| Unionized Employees | 333,996 |
| | $ 515,491 |

Supplier Payments

Listed are payees who received $20,000 or more for the provision of goods and services, including office supplies, advertising, contracts and equipment.

| | |
|---|---|
| Greystone Capital Management Inc. | 145,026 |
| James P. Marshall Inc. | 47,040 |
| Leith Wheeler Investment Counsel Inc. | 200,051 |
| Royal Trust | 59,930 |
| Sask Tel | 21,628 |
| Saskatchewan Property Management Corporation | 85,562 |
| TAP Communications Inc. | 193,583 |
| Payees under $20,000 | 245,499 |
| | $ 998,319 |

Other Payments

Listed are payees who received $20,000 or more for expenditures not included in the above categories. Payment includes public sector benefits.

| | |
|---|---|
| Minister of Finance | $ 82,388 |